

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)	CASE NO.
UTILITIES COMPANY FOR ISSUANCE OF)	2020-00109
INDEBTEDNESS)	

ORDER

On April 3, 2020, Kentucky Utilities Company (KU) filed an application for authority to incur debt not to exceed the aggregate amount of \$750 million in the form of First Mortgage Bonds, unsecured bonds, direct bank term loans, or any combination of these forms of indebtedness. KU also requests to increase the existing \$500 million authority for its revolving line of credit by either increasing its existing line of credit or adding one or more additional revolving lines of credit in the amount of \$150 million, not to exceed the aggregate or total amount of \$650 million. KU further requests that the Commission amend and extend KU's existing authority to allow KU to exercise extensions of its existing or any new multi-year revolving credit line(s) in 2020 and 2021 to extend the credit facility maturity date(s) to up to five years from the effective date of the amendment. On April 8, 2020, the Attorney General, through his Office of Rate Intervention (Attorney General), motioned to be granted intervention. On April 9, 2020, the Attorney General was granted intervention. On April 29, 2020, a joint informal conference between Commission Staff, the Attorney General, and KU and Louisville Gas and Electric Company took place. KU responded to requests for information on May 11, 2020. On May 22, 2020, KU filed a status Letter with the Commission and in that letter requested

that the Commission extend the period for its review of its application beyond the requested date of the order of June 2, 2020 through and until June 12, 2020. On May 28, 2020, the Commission issued its Order that extended the statutorily required date for review. The case now stands submitted for a decision based on the evidentiary record.

BACKGROUND

First Mortgage Bond Debt

KU received authorization from the Commission to incur additional long-term debt in the form of First Mortgage Bonds in a principal amount not to exceed \$500 million for the purpose of refunding and replacing \$500 million of existing Series B First Mortgage Bonds.¹ KU states that the requested financing is needed to refund and replace the existing \$500 million of Series B First Mortgage Bonds.² Specifically, the Series B First Mortgage Bonds were issued on November 16, 2010, bear a maturity date of November 1, 2020, and can be called by KU at par starting August 1, 2020. The interest rate is 3.25 percent.³ During the pendency of this proceeding KU issued \$500 million in First Mortgage Bonds due in 2050 at the interest rate of 3.30 percent, the transaction closed on June 3, 2020.⁴

KU's request to increase the amount of long-term debt authorized to \$750 million to be issued in 2020 or 2021 includes the \$500 million Series B Bonds First Mortgage Bonds that were refinanced as of June 3, 2020. KU states that the aggregate amount of

¹ Case No. 2019-00242, *Electronic Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and Assumption of Obligations* (Ky. PSC Sept. 9, 2019).

² Application at 1.

³ *Id.* at paragraph 4.

⁴ KU Supplemental Response to the Commission Staff's First Request Information (Response to Staff's First Request), item 1.

\$750 million will be preferably financed by First Mortgage Bonds (\$500 million of which has been issued) but also could consist of unsecured bonds, direct bank term loans, or some combination of the three (Intermediate Financing). KU states that the purpose of the Intermediate Financing is to supplement its existing and requested increase in authority to issue First Mortgage Bonds, provide flexibility under the current market conditions, and ensure timely issuance or refinancing as the most favorable pricing under the existing circumstances.

COVID-19 Impact

As the Commission has recognized the Novel Coronavirus COVID-19 outbreak has had significant impacts on all aspects of business and the Commission operations.⁵ KU notes in its application that it anticipates it may incur difficulties in the recording and closing of its First Mortgage Bonds. In order to close the transaction, KU must record the lien documents in each county clerk's office within its service territory, which includes 69 counties within five business days. With the possibility of the county clerks' offices not offering in person services and decreased staffing KU anticipates delays are possible in the near future. As ordered by the Commission, KU has also suspended disconnections due to nonpayment and has waived late payment fees. KU stated in the informal conference that it has already experienced lower cash flows due to nonpayment.

KU has a revolving line of credit totaling \$400 million with approximately \$223 million available for its needs. KU requests the Commission to increase the regulatory authority for its multiyear revolving line of credit by up to an additional \$150 million or, in the alternative, the regulatory authority to enter into similar additional facilities not to

⁵ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19*.

exceed that amount. KU received regulatory authority to increase its multiyear revolving line of credit to \$500 million in Case No. 2012-00232, but presently maintains a \$400 million revolving credit facility.⁶ KU expects its lenders would extend its current credit limit by \$250 million.

KU also requests the Commission authorize it to extend the termination date of the existing revolving credit facility or any new credit facility to five years from the date of amendment that it may enter into in 2020 and 2021.⁷ The Commission authorized KU to extend the term of its existing revolving credit line for a five-year term in 2019 and 2020.⁸ On March 8, 2019, KU extended the Credit Agreement from January 26, 2023, to January 26, 2024. KU states that extending the current revolving credit facilities will allow it to continue to obtain favorable short-term debt costs while avoiding higher commitment fees and related transaction costs expected in the future and provide flexibility to further optimize its short-term debt for its customers. KU commits to provide notice of each extension to the Commission within 30 days of execution.⁹

KU would issue the First Mortgage Bonds under its Mortgage Indenture. KU's Mortgage Indenture and amendments thereto (Mortgage Indenture) authorize it to issue from time to time, First Mortgage Bonds of one or more series, with each series having such date, maturity date(s), interest rate(s), and other terms as may be established by a

⁶ Case No. 2012-00232, *Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*, (Ky. PSC Aug. 3, 2012).

⁷ Application at paragraph 21.

⁸ Case No. 2018-00153, *Electronic Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and Assumption of Obligations and an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit*, (Ky. PSC Aug. 3, 2018).

⁹ Application at paragraph 21.

supplemental indenture executed by KU. All First Mortgage Bonds issued under the Mortgage Indenture would be secured equally and ratably by a first mortgage lien, subject to permitted encumbrances and exclusions, on substantially all of KU's permanently fixed properties in Kentucky.

KU noted that interest rates and associated issuance costs are dictated by market conditions, which are fluid. However, as of May 5, 2020, KU stated that the indicated rate on a 10-year, fixed-rate First Mortgage Bond was 2.31 percent and that the indicated rate on a 30-year, fixed-rate First Mortgage Bond was 3.18 percent.¹⁰ Based on experience with past issuances, KU estimated the amount of compensation to be paid to underwriters and agents for their services would not exceed 1 percent, or approximately \$1.5 million.¹¹ KU further stated that its current revolving line of credit allows it to borrow at LIBOR plus one percent and as of May 5, 330 LIBOR is 0.22 percent.¹²

KU stated that the issuance of the First Mortgage Bonds and short-term debt would not affect its equity position or credit rating because "over time, it is anticipated that the equity of the company will grow commensurate with the growth in bonds to maintain the credit rating."¹³ KU was granted authority from the Commission to enter into interest rate hedging agreements in connection with the issuance of the First Mortgage Bonds in Case No. 2019-00242, KU seeks to retain this authority.¹⁴

¹⁰ KU's Response to Staff's First Request, Item 6.

¹¹ Application at paragraph 15.

¹² KU's Response to Staff's First Request, Item 7.

¹³ KU's Response to Staff's First Request, Items 4 and 5.

¹⁴ Application at paragraph 15.

On June 5, 2020, KU filed a Supplemental Response to the Commission Staff's Initial Request for information noting that the Company had assessed the county clerks' offices and determined that it was able to file the indenture in each county clerk's office. KU further noted that market conditions were excellent and volatility was low in the bond market. KU approached the market with the bond offering on May 19, 2020, and sold \$500 million at an interest rate of 3.30 percent for 30 years under the regulatory authority granted in Case No. 2019-00242.

DISCUSSION

Having considered the evidence of the record and being otherwise sufficiently advised, the Commission finds that the issuance of the long-term debt in a principal amount not to exceed \$250 million¹⁵ and the use of interest rate hedging agreements and corresponding regulatory assets and liabilities as set out in KU's application are for lawful objects within the corporate purposes of KU's utility operations, are necessary and appropriate for and consistent with the proper performance of KU's service to the public and will not impair KU's ability to perform that service, are reasonably necessary and appropriate for such purposes, and should therefore be approved. However, the Commission notes that its approval herein is based upon statements made by KU in its application and its responses and supplemental responses to Staff's First Request and the Attorney General's First Request for Information. Thus, the Commission notes that its approval is conditioned on KU acting in a manner consistent with representations made in this matter, including those discussed below.

¹⁵ KU sought authority to enter into long-term debt transactions not to exceed \$750 million, however during the pendency of this case it has issued \$500 million of First Mortgage Bonds.

IT IS THEREFORE ORDERED that:

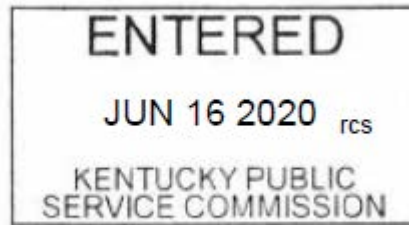
1. KU is authorized to issue long-term debt in the form of First Mortgage Bonds in a principal amount not to exceed \$250 million from the date this Order is entered through December 31, 2021.
2. KU is authorized to increase or add an additional revolving line of credit in 2020 or 2021 for the additional amount of \$150 million up to \$650 million.
3. KU is authorized to exercise extensions of its existing multiyear revolving credit line or any new multiyear revolving credit line in 2020 and 2021 to extend the credit facility maturity date up to five years from the effective date of the amendment.
4. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.
5. Within 30 days from the date of issuance, KU shall file with the Commission a statement setting forth the date or dates of issuance of the debt authorized herein, the date of maturity, the price paid, the proceeds of such issuances, the interest rate, the costs or gains from the use of hedging agreements, and all the fees and expenses involved in the issuance and distribution, including underwriting discounts or commissions or other compensation. KU shall also file documentation showing the quotes it relied upon to determine the lowest interest rate.
6. KU shall agree only to such terms and prices that are consistent with the parameters set out in its application.
7. Any documents filed pursuant to ordering paragraph 5 of this Order shall reference the number of this case and shall be retained in the post-case correspondence file.

8. Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the debt authorized herein.

9. This case is closed and removed from the Commission's docket.

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By the Commission



ATTEST:

A handwritten signature in blue ink, consisting of stylized initials and a surname, positioned above a horizontal line.

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